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Message Text

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C O N F I D E N T I A L MOSCOW 10754

USDOC FOR BEWT/TDAD (STECHSCHULTE)

E.O. 11652: GDS
TAGS: EALR, EEWT, UR, ENRG, EQIP
SUBJECT: U.S. FIRM GEOSOURCE SIGNS SECOND CONTRACT WITH SOVIETS FOR SEISMIC EXPLORATION EQUIPMENT

1. NEGOTIATORS FOR PETTY RAY/GEOSOURCE, INC. (MANDREL DIVISION) SIGNED CONTRACT JULY 15 WITH SOVIET FTO MASHPRIBORINTORG TO SUPPLY FIVE MORE VIBRATOR SEISMIC "CREWS" (I.E., PORTABLE FIELD EQUIPMENT, INCLUDING TRACKED VEHICLES, DATA ACQUISITION EQUIPMENT AND SEISMIC VIBRATOR UNITS) BY MID-1978 FOR A PRICE OF BETWEEN U.S. DOLS 13-15 MILLION. (GEOSOURCE ALREADY SOLD SOVIETS TWO SEISMIC CREWS SIX MONTHS AGO FOR USE IN YAKUTSK REGION.) ACCORDING TO JOHN SYNOTT, FIRM'S ACCOUNTANT, FIRST SHIPMENTS WILL BEGIN IN EARLY 1978. END-USER WILL BE MINISTRY OF GEOLOGY AND SYNOTT SAID GEOSOURCE HAD BEEN TOLD BY SOVIETS THAT ALL FIVE "CREWS" WERE DESTINED FOR USE IN TYUMEN FIELDS -- NONE FOR YAKUTSK THIS TIME AROUND. SYNOTT CHARACTERIZED DEAL AS LARGEST CONTRACT MASHPRIBORINTORG HAD YET SIGNED WITH U.S. FIRM.

2. FINANCING: AFTER INITIAL DOWN PAYMENT OF 10 PERCENT, BALANCE OF PAYMENTS WILL BEGIN DURING SUMMER OF 1978 AND EXTEND OVER NEXT FIVE YEARS IN ACCORDANCE WITH A FIXED
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SCHEDULE. INTEREST RATE SHOWN ON FACE OF CONTRACT IS 7.5 PERCENT BUT SYNOTT SAID THAT FIRM HAD GOTTEN "BURNED" ABSORBING DIFFERENCE BETWEEN THAT RATE AND RATE GEOSOURCE HAD TO PAY FOR ITS MONEY WHICH WAS IN "DOUBLE DIGITS," ACCORDING TO HIM. MARGINS ON REST OF EQUIPMENT, HOWEVER, WERE "SUFFICIENT" TO MAKE DEAL PROFITABLE. SYNOTT EXPRESSED OPINION THAT SOVIETS WERE BECOMING MORE AND

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MORE "ORNERY" ON ACCEPTING CONTRACT PAYMENT CLAUSES WHICH THEY HAD APPROVED IN PAST.

3. CAPABILITY OF EQUIPMENT: QUERIED AS TO WHAT DEGREE SOVIET GAS AND OIL EXPLORATION CAPABILITIES IN TYUMEN AREA WOULD BE ENHANCED BY PURCHASE OF THIS ADDITIONAL SEISMIC EQUIPMENT, SYNOTT REPLIED THAT MAXIMUM UTILIZATION OF ALL FIVE CREWS WOULD ENABLE SOVIETS TO MAP ONLY A "MINUTE PORTION" OF TOTAL POTENTIAL OIL AND GAS DEPOSITS IN TYUMEN REGION. BY COMPARISON, HOWEVER, HE CLAIMED THAT MUCH OF SOVIETS' OWN SEISMIC GEAR WAS CRUDE AND INACCURATE. (COMMENT: WE HAD BEEN TOLD EARLIER BY ANOTHER GEOSOURCE OFFICIAL THAT FIRM'S UNIT COULD UNDER IDEAL CONDITIONS -- HARDLY THOSE OF TYUMEN OBLAST -- COVER NEARLY 100 KILOMETERS A DAY MAPPING UNDERGROUND STRATA WITH COMPUTER-ASSISTED PRECISION.)

4. WARRANTY AND TRAINING: GEOSOURCE WILL BE RESPONSIBLE FOR REPLACEMENT OF DEFECTIVE UNITS AND PARTS DURING A PERIOD UP TO TWELVE MONTHS FROM DATE OF START-UP OF EACH CREW, BUT NOT IN EXCESS OF 18 MONTHS FROM DATE OF DELIVERY. GEOSOURCE WILL PROVIDE SOME OF ITS OWN TECHNICIANS FOR START-UP TRAINING OF SOVIET OPERATORS ON-SITE, BUT THERE WILL BE NO LONG-TERM OBLIGATION TO TRAIN FUTURE CREWS.

5. SENSE OF URGENCY: ACCORDING TO SYNOTT, GEOSOURCE TEAM FELT A DEFINITE TONE OF URGENCY ON PART OF SOVIETS TO ENTER CONFIDENTIAL

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CONTRACT TALKS AROUND FIRST OF JULY. IT BECAME EVIDENT AT THAT TIME, HE SAID, THAT SOVIET NEGOTIATORS (FTO AND MINISTRY REPS) SEEMED UNDER REAL PRESSURE TO GET EQUIPMENT INTO FIELD.

6. COMMENT: THIS CONTRACT SIGNING FOLLOWS CLEAR TREND WE SEE EMERGING IN OUR BILATERAL NON-AGRICULTURAL TRADE WITH SOVIETS. ENERGY EXPLORATION AND PRODUCTION EQUIPMENT SUPPLIERS CONTINUE TO LEAD PACK AMONG SUCCESSFUL U.S. SELLERS IN SOVIET UNION. DESPITE THEIR OBVIOUS NEED FOR SUCH EQUIPMENT, HOWEVER, SOVIETS PLAYED THIS CONTRACT VERY "COOL" UP UNTIL FINAL WEEKS, AN EVIDENT ATTEMPT TO DRIVE DOWN GEOSOURCE PRICE. THE COMPANY HELD RELATIVELY FIRM, HOWEVER, AND SOVIETS CAVED. MOST PROBLEMS CAME FROM MASHPRIBORINTORG AND NOT FROM MIN GEOLOGY NEGOTIATORS, SYNOTT SAID CONFIRMING THAT PRICE WAS PROBLEM AND NOT TECHNOLOGY. TOON

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